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THE RAILWAY INQUIRY

In the Matter of Rates, Fares and Charges of Carriers
by Railroad, Subject to the Interstate Commerce Act



Before the Interstate Commerce Commission
Washington, D. C.

308

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Box 106

Opening Remarks
by
HOWARD ELLIOTT
Chairman, Northern Pacific
Railway Company

December 14, 1921

Reprinted by
Association of Railway Executives
61 Broadway
New York

THE RAILWAY INQUIRY

Opening Remarks

by

HOWARD ELLIOTT

MR. CHAIRMAN and gentlemen of the Commission: I have been requested by the Chairman and the General Counsel of the Railway Executives' Association to make a general statement here, which I will make as briefly as I can, because I appreciate what you say about condensing.

In your call of November 28th you stated that, "The purpose of this hearing is to elicit facts;" and that is exactly what the carriers desire to have brought before the Commission and before the whole country in the clearest possible manner.

There is today abroad in the land some misinformation, which has some weight in the public mind and in the minds of some in authority in state and national governments, and also has weight in the minds of a great many earnest and zealous men that are specialists employed by communities and organizations to safeguard their particular interests. *This misinformation, or lack of information, tends to produce erroneous conclusions that are hurtful to what we are all interested in, namely, restoration of business activity and prosperity.*

All Required Information to Be Supplied

We, therefore, on our side, welcome very much the opportunity afforded by the Commission to lay the entire situation before you and, through you, before the country.

Your notice of November 28th is only about two weeks old, and obviously it has been impossible to get all of the information compiled by this date, but we are getting all of the necessary information together, and

we have perfected an organization for the purpose of giving to you everything that we can that will help out. That organization follows, in a general way, the organization prepared when we handled Ex Parte 74 (the rate case of August, 1920) before you.

The Eastern group of railroads have subdivided themselves into a Trunk Line group, a Central Freight Association group and a New England group. The Southern group is as it was before; the Western group is as it was before. For each one of these groups there has been created an executive committee, made up of executive officers and, with them, committees of lawyers, of accountants and of traffic officers.

The very best and most intelligent men that are in the service of the carriers will appear before you, in due time, to answer as completely as they can the thirteen inquiries and discuss as completely as they can the thirteen subjects outlined by you in your written paper of November 28th, and any other matters that you may, in your wisdom, bring up.

Now, I think it may fairly be said that the representatives of the carriers, while appearing necessarily as representatives and, if you like, advocates of this great transportation machine, come before you also fully imbued with a spirit of looking at the economic situation of the United States and of the world as a whole.

I believe these railroad officers realize that, under the very unusual economic conditions now confronting the world, the principles laid down in the Transportation Act cannot be carried out to an exact arithmetical conclusion.

Reductions in Rates Already Made

This spirit among the railroads and their officers has already been evidenced by voluntary adjustments of rates almost countless in number. The Commission knows of them thoroughly well. Mr. Commissioner Lewis sub-

mitted a report to the Hon. Everett Sanders of the House of Representatives on October 26th, consisting of some 40 pages, showing rate reductions on all kinds of commodities made since the decision of Ex Parte 74, which he commented on at that time.

Just to show you the magnitude of the work, here is the report that was handed to me this morning by the Freight Traffic Manager of the Northern Pacific, which I simply submit as giving you an idea of the amount of work. Here are a hundred pages of changes in tariffs of the Northern Pacific alone since the Transportation Act was passed! That is only for one railroad, and every other railroad has been doing the same sort of thing.

Reductions in Rates

Now, these readjustments have been going on in many, many directions. As you know, as a result of numerous negotiations with a group of gentlemen representing agriculture and industry in various forms, the railroads finally laid before you a plan for a voluntary 10 per cent reduction in the carload rates on certain agricultural products.

I mention all these reductions now simply to point out that the carriers, although hardly any one of them since the Transportation Act was passed has earned a fair return on fair value during the past year, and the groups as a whole have not anywhere nearly done so, have all been alive to the difficult economic conditions confronting all industry, and they have endeavored in part to meet those difficulties.

As I have just said, the carriers proposed a 10 per cent reduction in these carload rates on certain farm products, not because the earnings of the carriers justified that reduction, but for the purpose of helping out one of the great fundamental occupations of the country.

The carriers agree, as I think most people do, that the farming industry, the agricultural industry, is the back-

bone of the food supply of this country. It is the foundation of the buying power of the countless articles made by manufacturing and industrial plants all over the country; and the success or failure of agriculture has much to do with the success or failure of every other industry, including transportation.

I am violating no confidence when I say that, early in last October, or late in September, the railway executives, in their effort to do what they could to take a forward step in encouraging the development of business, had interviews here in Washington with a great many representative people, including the President of the United States. We had a very frank and full discussion with him, and he suggested that the railroads see if they could not take a first step in trying to bring about some economic readjustment that would help bring down the cost of living, help bring down wages, and help start our industrial army on a new forward and upward march.

We have done that. We took his suggestion into consideration, and as a result of all the consideration and discussion we laid this platform down before you a short time ago, of a voluntary reduction, with simply the idea of doing what we could in starting the readjustment.

We have that spirit very strongly. It is a world spirit right now, perhaps, shown here in this wonderful conference going on about limitation of armament, and in the spirit shown by the nations in accepting things that a year ago they would not have accepted.

The Railroads' Need for Co-operation

We sometimes feel that the spirit of help that we have evinced in the numerous reductions in rates already made and in those we are suggesting has not been evidenced sufficiently in other directions.

Not long ago the live stock men of a certain region waited upon the executives of the roads, telling them of the serious condition of the live stock business; and I can

sympathize with that, because I have a lot of cattle, myself, and I cannot sell them today for what I paid for them. They asked for reductions in rates. The live stock men were asked if any of the other elements in getting their live stock from the range or the feeding ground to market were being reduced; and they said nobody else was reducing, but they wanted the railroads' rates reduced.

Now, in order to get this thing worked out we have all got to help. I happen to produce apples in the Yakima Valley, in Washington. I get, for my apples, about a cent each. The freight rate to New York is from a half to three-quarters of a cent. So that the apple and the rate are not to exceed two cents. When I want to buy my apple from the grocer I pay from five or ten to fifteen cents. So it is not all in the freight rate.

Help Towards Economic Adjustment

These are very trite illustrations, but I give them because there has got to be help in this great economic adjustment from others than the railroads.

I would like to say a word about deflation and inflation. During the war, agriculture and industry generally were more or less inflated, and there were received very much higher prices for the articles produced than prior to the war. Farmers and farm plants improved their condition very much, and agricultural lands were sold at prices never before dreamed of. Securities representing manufacturing plants were much higher in value and in price. And a great many manufacturing enterprises were able to make their prices during the war on such a basis that there were large profits, either in money or in additions to their plants and facilities, so that they are now in a much better position than they were before the war.

I think all will admit that there was a period of inflation and of considerable prosperity for both the farmer and the manufacturer. It was not, however, so for the railroads. They got a scanty living through payments

from the Government, in order to keep them going; but, unfortunately, their properties were returned to them deteriorated as to their physical condition, demoralized as to their personnel, and with many new and difficult methods of management and high wage costs imposed upon them.

These conditions growing out of war and governmental control are being corrected slowly by the hardest kind of work between the managements and the men, and with the governmental agencies which, under the Transportation Act, have the final power in each of these matters.

All Must Share the Burden of Deflation

Deflation today is taking place in many directions, and all of us have got to bear part of the burden. The farmer has felt the full force of this, and from the high and prosperous condition in which he lived during the war, he has had to come down a long way. And this naturally hurts him, and it hurts the whole situation, and he, not unnaturally, looks around for relief.

The carriers have felt that agriculture was one of the great industries in this country that they should recognize, if it were in their power to help it by a moderate reduction in rates. And it was for that broad general purpose, after our interview with the President, Mr. Hoover and others, that we recommended that there be made, as a step forward in trying to help out in the existing situation, a reduction in rates, not because we could afford to do it from many standpoints, but just upon the ground of helping out.

Now, manufacturing enterprises are also deflating, and the same may be said about the jobbing and distributing business.

It is a slow and difficult process, but here again these two classes of human industry had the chance for great prosperity, *large profits and great additions to their plants during the war, and many of them*

availed themselves of that opportunity, but the railroads did not have that chance.

What is generally described as "labor" has already been hurt by unemployment and by some reduction in wages, which, however, has not affected the great transportation interests to the extent that it should, if what some of the people of the country want, namely, lower transportation charges, are to be brought about.

And it would seem as if labor, through its great leaders, ought to recognize promptly that this deflation process is going on and admit that it must come and allow a lower unit of wage in many directions, not only on the railroads, but in the mines and in the building trades, all of which would mean the employment of more men, a lower unit price on many articles that are used by all, and thus tend to reduce the cost of living and help to break the present endless chain of expense.

The Railroads As Buyers of Materials

Such a policy would be extremely helpful to the railroads, because their direct labor bill is so very large a part of their total expenses, and they are such heavy buyers of materials the cost of which is made up so largely of labor. When they are prosperous, as we all know, they are very large buyers—perhaps the largest buyers—of many articles, which means employment to men and a greater demand for food and other articles, thus helping all along the line.

The country pays a very big bill—through rates—for the transportation service furnished by the railroads. But the country is a very big country, and the amount of transportation furnished is very large. *The production of it is extremely costly, and today there is no adequate return to the plant that furnishes the service.*

It should be remembered that for many years prior to the war the general level of rates was not sufficiently

high to protect this national industry of transportation, and there was danger to everybody, to agriculture and to all kinds of industry, of the supply of transportation not being adequate for the needs of the country. Therefore, to cure that economic difficulty, effort was made through the Transportation Act and through the rates permitted by the Commission under that Act.

These rates are higher than they were before the war, *but they were then far too low for safety, and we are comparing today with an indefensible basis, if the country is to continue private operation and ownership of railroads, subject to public regulation.*

Critics of the general level of rates ought to remember and consider how out of balance rates were before the war and that today, while some rates may be too high, the general level of rates approved by Ex Parte 74, with these numerous adjustments made since, is probably not too high, considering what the railroads have to pay for wages, fuel and supplies generally; also that the increase also in this country because of changed conditions here has not been nearly so great as the increase in transportation charges in many other countries which have suffered from the same world-wide conditions that we have because of the increase in the prices of wages and materials used by their respective transportation systems.

Rates, In Earlier Years, Too Low

Again, the railroads of this country have always believed in making as low rates as they possibly could, and some of us think they did over-do it at times. In fact, the Transportation Act recognized that danger by giving to the Commission the power to name the minimum rate as well as the maximum. The railroads wanted as low rates as they could have, because of the great distances here and because they wanted the widest distribution and the greatest exchange of all kinds of commodities.

The owners and managers, however, of these great railroads are trustees, holding these properties for giving service to the public, and they must, in making their rates and in presenting facts to this Commission and to the public about their business, about the charges they make for service, realize that they have a paramount duty in maintaining a safe and adequate transportation machine, and in managing it honestly, efficiently and economically.

To permit wastage through inadequate rates means a deterioration of the properties within their charge, which will tend to prevent their serving the public adequately and to permit such wastage is not honest, efficient and economical, any more than it is to permit wastage in labor, if they can control it, or in the use of material or in any other form of management.

Now rates, of course, have a bearing on the development and success of agriculture and of industry; but they are not the only important elements in the problem that the country is now considering and that you will have to consider in coming to a conclusion about this particular matter.

For example, today the labor cost of putting up a house is far more important than the rate on the material itself, and the labor cost is a much greater deterrent to solving the important housing problem of the country than is the railroad rate. This labor cost goes back into the lumber, the steel, the iron, the brick, the cement, and, of course, it is very evident in the wages received by the men actually engaged in placing the material, after it has been put on the ground, in the form of a house.

Many Other Factors to Consider Besides Rates

I feel, therefore, that it is very important, not only for us, the railroads, but for these gentlemen who think our view may not be correct, and the Commission, to be just

and without prejudice, and to realize that there are a great many factors besides rates which are affecting business today.

A sweeping reduction in all rates would not, in my judgment, at this time increase business, for many other things must be settled before we obtain what we all desire—that is, a complete revival of industry in this country.

I refer to such matters as our various foreign questions, which seem to be in a fair way of adjustment by the wonderful conference now going on here; the tariff question, which Congress now has in hand, and which is most difficult; the tax question, which has been partially settled and which is even more difficult than this railroad rate question, and the general financial condition of the world.

A word now about the Transportation Act, which today is our guide. The country debated the general subject for a long time—Congress did—and finally passed the bill. It has been the law only about twenty months. During some of those months business was depressed and disturbed, and I think it can truthfully be said that the Act has not had a fair trial.

The country, in that Act, declared for a national railroad policy, and the supreme power of the nation, through the Commerce Commission, over questions of dispute; also for a policy of self-support for the carriers out of the service they rendered to the public. The public, after this long debate, turned away from the doctrine of supporting their transportation system through taxation, and also turned away from Government ownership.

How Varying Conditions Change Arguments

There was very little complaint about this Transportation Act up to a year ago, or about the rates under it. The big complaint was that the country needed more cars, more engines, more tracks, more facilities, and the demand only a little over a year ago was to move the

grain and coal and the fruit and all the necessary things that had to be moved. Even this year there has been a very large demand for moving the fruit, and a fear that we could not do it.

This same kind of complaint is apt to come again, and in even a more marked degree, unless the carriers are allowed to be self-supporting through rates, so that they can have an adequate machine, unless the people are going to take the back track and say, "We would rather support our railroads through taxation;" and unless they want to take over the roads absolutely and have the Government own and run them.

But they decided they did not want to do that. To my mind, it would be unfortunate, in this time of depression, and some excitement perhaps, to debate those two great questions. So it seems to me most important, in considering what all will admit is a difficult economic situation in this country, to be guided by the general principles laid down in the Transportation Act until such time, after very careful consideration and discussion and debate, the Congress, in its wisdom, may decide to change any of those principles. We do not know where we would go now if we departed from them.

Of course, everybody will admit that there must be an effective and adequate transportation machine. It is very trite to say that, but sometimes it is forgotten in the burdens that disturb the individual man, whether he be farmer, manufacturer or miner. *It is just as important to each of those gentlemen, in the long run, to make certain that he is going to have service as it is to the railroads.*

One very important principle in the Transportation Act is that the carrier shall be allowed rates that will, as nearly as may be, produce a fair return on its fair value.

I happened to be in conference, the last two months, quite frequently with a representative group of gentle-

men, covering all forms of farming, industry and manufacturing, and not one of them has denied that principle. They say, "Why, of course, you are entitled to a fair return upon your fair value. We do not deny that for one minute."

The Carriers Have Not Earned A Fair Return

The economic condition of the country, however, has been such that the carriers have not been able to approach that, and they realize that they, in common with others, must suffer somewhat from the present general depression and dislocated world conditions.

But it should be remembered that the carriers had no large profits in the period of inflation, and, as they are quasi-public servants, controlled in their earnings and expenditures by governmental agencies, the greatest care should be taken now not to take away from them and give to others to such an extent that the carriers cannot obtain money with which to maintain and operate their properties properly, pay interest on their bonds, and pay some return to their owners (because the bonds and stocks, as you know, are so widely distributed all over the country), and also be in a position to get some new money, against the time when business comes back to a higher level than we have ever before seen it in this country. It may not come in 1922, but it surely will come; and then the cry will be, "The railroads haven't the facilities with which to do this great business." That we feel will surely come.

As to Proposed Railroad Economies

Railroad management and operation are not perfect, and no railroad manager claims that they are; but we are striving all the time to do better, to adopt new methods, to use new devices, and to make a dollar go as far as we

can. We are very glad to have suggestions, but we want to have confidence in the man or men that make the suggestions and feel that he or they have had the experience with which to back them up; and, unfortunately, that has not always been the case.

Suggestions have been made by economists, and by those not familiar with railroad management and operation that the railroads can do so and so; but the suggestions are often so impracticable that they cannot be carried into effect.

But, since the present American railroad system began to develop itself in 1870, in spite of errors and mistakes that can be pointed out and that are common to all human endeavor, a very marvelous piece of work has been done and an enormous commerce moved with fair success to the country as a whole.

The country has increased and prospered along every line much more than have the carriers that performed the transportation services that were such an important element in aiding the great growth of the last fifty years.

In my humble opinion, we are going to have another great growth—in fact, I believe the next fifty years will be the most glorious period of American history and that we will take a position in the world that no nation has ever taken before—and it is very essential that this transportation machine should be put and kept in complete repair and increased in its capacity and size before money, men and materials are used for non-essential work.

We need trackage, terminals, motive power—not today, but looking ahead we need them—and we need better facilities for caring for equipment and suitable working conditions for our men.

Today there is a great deal of unemployment, and there is a tendency on the part of the nation, states, counties

and cities to encourage public works, work on railroads, etc., so as to employ these men.

Money Should Not Be Spent for Non-Essentials

It is hoped, therefore, that progressive and ambitious communities will not assume that the railroads have unlimited money for things like elaborate passenger stations, grade separations and other non-essentials. Every dollar of the limited amount of railroad money that is diverted to that channel is taken away from the strengthening of the railroad in its essentials and in making such payments upon its securities as are absolutely necessary in order to sustain credit and to move forward in the future as a going concern.

The law and the Commission both say, very properly, that operation must be honest, efficient and economical. That, however, can be obtained only by having individual producers and consumers of transportation honest, efficient and economical. A railroad, as such, cannot be honest, efficient and economical. Everybody, from the president down to the water boy, must be honest, efficient and economical; and the shipper can help, as he did during the war.

Therefore, it would seem, in these trying times, as if all railroad users and railroad employes should carry out the spirit and letter of the law and help the country conserve its transportation machine by eliminating waste and by co-operation in the highest degree.

So you, in your notice, have very properly laid stress, in some of the subjects mentioned, on items that bear directly on honesty and efficiency and economy in operation; and it is the purpose of these carriers, through the best men they can get, to lay before you and before the country all the information they can bring here, as to what they have done, what they are doing and what they are trying to do along those lines.

Big Improvements Call for Capital

We all know that some further economies are possible, but they depend largely on two factors that cannot be put into effect at once. One of these is the spending of money, for capital account, in the creation of better facilities, such as, among others, reduced grades, better terminals and devices for handling freight therein, both in yards and in freight houses; a better supply of high-powered and rapid working tools in all shops and round houses where mechanical work is done; improved water supply; improved fuel stations, and a better class of fuel, and so forth. But it is a slow process.

Second: the actual price paid to the individual workman and the development in him of a spirit that it is his duty, as an American citizen, to do all he can to bring down the cost of transportation because of the help such reduction will be in working out the soundest possible general economic scheme for the whole country.

And this same doctrine, in my humble opinion, ought to be applied to those who work in the mines, the factories, and the forests, because fuel and material prices are so important that they affect all of us, and they are largely now a question of wage.

The war dislocated a lot of these things, and we are slowly getting back to what we call old-fashioned ideas of hard work and maximum output.

Summary of the Railroads' Case

Now, gentlemen, to try to recapitulate for a minute—and I am free to say that I am speaking my own views, rather than any views arrived at by any conference:

The carriers stand here and are glad to be here to help in every way they can in the discussion and investigation of the problem before you.

We want to give you, and to give the country, all the facts we can.

We desire to impress upon you, and upon the country, that, while we are anxious to co-operate in every reasonable way, through a readjustment of rates, with agriculture, industry and labor, so as to bring about better economic conditions, we believe that the carriers must be allowed to live and grow, in the interest of the country as a whole.

We want to point out to you that there was practically no inflation in the transportation business during the war, and, therefore, there is a much less margin and opportunity for deflation now.

We want to point out that there is a danger of giving too much weight to the freight rate itself and its effect on business. Reductions below the limit of adequacy may do the country more harm than good.

We want to suggest to you that the principles adopted, after long discussion in the country and debate in Congress, and placed in the Transportation Act are pretty safe guides to be followed at this time and until such time as the country, in its wisdom, may set up a new guide post.

And we want to assure you that we are doing all that we can each day with our powers, limited quite largely in our dealings with our employes by the Transportation Act, to manage the properties entrusted to our care, honestly, efficiently and economically.

And we want to bring about, as rapidly as we can, having due regard to maintaining the properties entrusted to our care,—not only for their usefulness today, but looking ahead to what is bound to come, a higher level of business—we want to bring about reductions in rates that will be helpful to agriculture, manufacturing and commerce generally.

Finally, we want to urge upon you—I know you appreciate it, and I hesitate to say this—we want to urge upon you that the greatest speed consistent with a complete examination of the facts and conditions be made in conducting these hearings, so that a prompt decision may be reached.

The present uncertainties and the constant talk about reduced rates are having a very substantial effect in keeping business back and preventing the employment of labor—much more so, in my humble opinion, than the rates themselves.

As I have just stated to you, the groups representing different sections of the country are organized; some of them are very nearly ready, I understand, with their work, and they are here, heartily and wholly at your service, to try to help make this economic situation better.

I believe I speak for them when I say that they are here, not only as railroad men and experts, but as citizens of the United States, who realize the difficulties confronting our country and the world, and they want to help in every way they can, and will do so.

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